

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BBF2124 – FINANCIAL MANAGEMENT II

(All sections / Groups)

11 MARCH 2017

2.30 p.m - 4.30 p.m.

(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages with 4 Questions only.
2. Attempt ALL questions. The distribution of the marks for each question is given .
3. Please write all your answers in the Answer Booklet provided.

INSTRUCTION: ANSWER ALL QUESTIONS.**QUESTION 1**

- i) Natural Essentials Co. with a 12.5% cost of capital must select the optimal group of projects from those shown in the following table, given its budget of RM1 000 000.00.

Project	Initial Investment (RM)	Net Present Value (RM)
1	300 000	75 000
2	200 000	12 000
3	100 000	35 000
4	900 000	90 000
5	500 000	50 000
6	100 000	50 000
7	800 000	150 000

- (a) Calculate the present value of cash inflows associated with each project.

(7 marks)

- (b) Which optimal group of projects should be funded? High costs will be incurred for any unused funds by the company.

(3 marks)

- ii) Discuss the “optimal capital structure” and its significance for a company.

(5 marks)

(Total: 15 marks)

QUESTION 2

- i) Discuss the difference between a residual dividend policy and a clientele effect with example (s).

(12 marks)

Continued...

- ii) At the present time, the company with the common equity accounts shown here has declared a 20 percent stock dividend when the market value of its stock RM20 per share.

Common stock (300,000 shares at RM1 par)	RM300,000
Paid-in capital in excess of par	5,700,000
Retained earnings	<u>3,000,000</u>
Total stockholders' equity	<u>RM9,000,000</u>

Illustrate the effects of distribution of the stock dividend on the equity accounts with computations.

(8 marks)

(Total: 20 marks)

QUESTION 3

- i) You have been appointed as a Strategist Officer of Tami Co. and the management would like to enhance the overall performances of the company through a merger activity. Briefly discuss the negotiation process in merger.
- ii) There are unique factors in the international setting that tend to complicate the financial operations of multinational companies (MNCs). Discuss the influence of international factors on MNCs' operations.
- iii) Distinguish between the term "business risk" and "financial risk". What gives rise to each type of risk?

(12 marks)

(10 marks)

(8 marks)

(Total: 30 marks)

Continued...

QUESTION 4

- i) Distinguish between the term “operating lease” and “financial lease” with example(s).
(10 marks)
- ii) Siamse industries issued a European Euro denominated three year discount note for EUR 150 million. The proceeds were converted to Ringgit Malaysia to purchase capital equipment in Malaysia. The company wants to hedge this currency exposure with at-the-money Euro call options. Discuss the characteristics and evaluate the suitability of this option in terms of both advantages and disadvantages with regards to Siamse’s hedging objective.
(10 marks)
- iii) M&M is considering investing in a RM1,000-par-value bond with 20 years until maturity and a 13% annual coupon interest rate. The bond has 10 warrants attached for the purchase of common stock. The theoretical value of each warrant is RM12. The interest rate on straight bond with similar risk is currently at 14%.
- (a) Compute the straight value of the bond
(5 marks)
- (b) Explain and compute the implied price of each warrants attached to the bond.
(8 marks)
- (c) Would you recommend that M&M invest in this bond? Explain.
(2 marks)

(Total: 35 marks)**End of Page**